NALCOR ENERGY MARKETING CORPORATION
CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2023
(Unaudited)

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (thousands of Canadian dollars)	Notes	**September 30 2023**	December 31 2022
ASSETS			
Current assets			
Cash		**29,411**	25,741
Trade and other receivables	3	**16,775**	19,705
Prepayments		**2,461**	2,054
Derivative assets	11	**23,390**	88,661
Total current assets		**72,037**	136,161
Non-current assets			
Property, plant and equipment		**160**	183
Intangible assets		**7**	7
Long-term derivative assets	11	**-**	13
Total assets		**72,204**	136,364
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		**7,730**	9,247
Deferred liability	4	**21,422**	85,689
Total current liabilities		**29,152**	94,936
Non-current liabilities			
Employee future benefits		**629**	665
Total liabilities		**29,781**	95,601
Shareholder’s equity			
Share capital		**1**	1
Reserves		**530**	530
Retained earnings		**41,892**	40,232
Total equity		**42,423**	40,763
Total liabilities and equity		**72,204**	136,364

See accompanying notes

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF PROFIT AND COMPREHENSIVE INCOME
(Unaudited)

For the period ended September 30 (thousands of Canadian dollars)	Notes	**Three months ended** **2023**	2022	**Nine months ended** **2023**	2022
Energy sales		**29,623**	53,236	**70,120**	90,839
Other revenue	6	**1,502**	181	**3,514**	5,614
Revenue		**31,125**	53,417	**73,634**	96,453
Transmission and market fees	7	**16,592**	6,345	**38,617**	14,316
Operating costs	8	**1,159**	1,208	**3,755**	3,729
Power purchased	12	**5,376**	11,976	**15,628**	19,041
Depreciation and amortization		**8**	8	**25**	24
Net finance income	9	**(326)**	(172)	**(864)**	(227)
Other expense (income)	10	**823**	18,264	**813**	(6,868)
Expenses		**23,632**	37,629	**57,974**	30,015
Total profit and comprehensive income for the period		**7,493**	15,788	**15,660**	66,438

See accompanying notes

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF CHANGES IN EQUITY
(Unaudited)

(thousands of Canadian dollars)	Note	Share Capital	Employee Benefit Reserve	Retained Earnings	Total
Balance at January 1, 2023		**1**	**530**	**40,232**	**40,763**
Profit for the period		**-**	**-**	**15,660**	**15,660**
Total profit and comprehensive income for the period		**-**	**-**	**15,660**	**15,660**
Dividends	**5**	**-**	**-**	**(14,000)**	**(14,000)**
Balance at September 30, 2023		**1**	**530**	**41,892**	**42,423**
Balance at January 1, 2022		1	(3)	20,502	20,500
Profit for the period		-	-	66,438	66,438
Total profit and comprehensive income for the period		-	-	66,438	66,438
Dividends	5	-	-	(19,000)	(19,000)
Balance at September 30, 2022		1	(3)	67,940	67,938

See accompanying notes

NALCOR ENERGY MARKETING CORPORATION
STATEMENT OF CASH FLOWS
(Unaudited)

For the period ended September 30 (thousands of Canadian dollars)	Notes	**Three months ended** **2023**	2022	**Nine months ended** **2023**	2022
Operating activities					
Profit for the period		**7,493**	15,788	**15,660**	66,438
Adjustments to reconcile profit to cash provided from operating activities					
Depreciation and amortization		**8**	8	**25**	24
Loss (gain) on power purchase agreement (PPA) balances	11	**519**	21,515	**(1,710)**	(7,457)
Unrealized loss (gain) on other derivatives		**810**	(1,436)	**2,899**	3,488
Finance income	9	**(351)**	(196)	**(950)**	(277)
Finance expense	9	**25**	24	**86**	50
Other		**20**	29	**(36)**	93
		8,524	35,732	**15,974**	62,359
Changes in non-cash working capital balances	13	**1,649**	(2,394)	**1,017**	(12,762)
Interest received		**351**	196	**950**	277
Interest paid		**(25)**	(24)	**(86)**	(50)
Net cash provided from operating activities		**10,499**	33,510	**17,855**	49,824
Investing activities					
Changes in property, plant and equipment		**-**	3	**(2)**	1
Additions to financial transmission rights	11	**-**	(347)	**(172)**	(928)
Changes in non-cash working capital balances	13	**(2)**	1,543	**(11)**	1,766
Net cash (used in) provided from investing activities		**(2)**	1,199	**(185)**	839
Financing activity					
Dividends paid	5	**-**	-	**(14,000)**	(19,000)
Net cash used in financing activity		**-**	-	**(14,000)**	(19,000)
Net increase in cash		**10,497**	34,709	**3,670**	31,663
Cash, beginning of the period		**18,914**	12,275	**25,741**	15,321
Cash, end of the period		**29,411**	46,984	**29,411**	46,984

See accompanying notes

1. DESCRIPTION OF BUSINESS

Nalcor Energy Marketing Corporation (Energy Marketing) was incorporated under the Corporations Act of Newfoundland and Labrador (the Province) on March 24, 2014. The purpose of Energy Marketing is to manage Nalcor Energy's (Nalcor) participation in extra-provincial electricity markets. Energy Marketing is a 100% owned subsidiary of Nalcor. Energy Marketing's head office is located at 500 Columbus Drive, St. John's, Newfoundland and Labrador, A1B 0P5, Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance and Basis of Measurement
These condensed interim financial statements have been prepared in accordance with *International Accounting Standard 34 – Interim Financial Reporting* using accounting policies consistent with those used in the preparation of the annual audited financial statements for the year ended December 31, 2022.

These condensed interim financial statements do not include all of the disclosures normally found in Energy Marketing's annual audited financial statements and should be read in conjunction with the annual audited financial statements.

These condensed interim financial statements have been prepared on a historical cost basis except for derivative instruments which have been measured at fair value. The condensed interim financial statements are presented in Canadian Dollars (CAD) and all values rounded to the nearest thousand, except when otherwise noted. The Board of Directors has delegated authority to approve the condensed interim financial statements to the Audit Committee of the Board of Directors of Nalcor, which approved the condensed interim financial statements on November 16, 2023.

3. TRADE AND OTHER RECEIVABLES

As at (thousands of Canadian dollars)	**September 30 2023**	December 31 2022
Trade receivables	**4,458**	8,442
Due from related parties	**12,317**	11,263
	16,775	19,705

As at (thousands of Canadian dollars)	**September 30 2023**	December 31 2022
0-60 days	**4,516**	9,217
60+ days	**12,259**	10,488
	16,775	19,705

4. DEFERRED LIABILITY

The deferred liability associated with the Energy Marketing – Hydro PPA represents Energy Marketing's current liability related to its expected commitments for 2023 under the PPA with Hydro. The PPA, which became effective on October 1, 2015, allows Energy Marketing to purchase available Recapture energy from Hydro for resale in export markets or through agreements with counterparties. Additionally, the PPA allows for the use of Hydro's transmission service rights by Energy Marketing to deliver electricity, through rights which are provided to Hydro pursuant to a Transmission Service Agreement with Hydro-Québec dated April 1, 2009. The PPA can be terminated by either party with notice provided 60 days prior to the intended termination date.

As at (thousands of Canadian dollars)	**September 30 2023**	December 31 2022
Deferred liability, beginning of the period	**85,689**	55,655
Additions	**-**	85,689
Amortization	**(64,267)**	(55,655)
Deferred liability, end of the period	**21,422**	85,689

5. DIVIDENDS

	Three months ended		**Nine months ended**	
For the period ended September 30 (thousands of Canadian dollars)	**2023**	2022	**2023**	2022
Declared and paid during the period	**-**	-	**14,000**	19,000

6. OTHER REVENUE

	Three months ended		**Nine months ended**	
For the period ended September 30 (thousands of Canadian dollars)	**2023**	2022	**2023**	2022
Renewable energy credits	**1,502**	181	**3,514**	1,074
Scheduling fees	**-**	-	**-**	4,492
Transmission recoveries	**-**	-	**-**	48
	1,502	181	**3,514**	5,614

7. TRANSMISSION AND MARKET FEES

On June 1, 2023 the Amended and Restated Transmission Service Agreement for Long-term Point-to-Point Transmission Service between Hydro and Hydro in its capacity as the Newfoundland and Labrador System Operator was assigned to Energy Marketing. This agreement assigned the rights to 500 MWs of reserved capacity for conditional firm point-to-point transmission service for the Newfoundland and Labrador transmission system allowing Energy Marketing to move energy from Muskrat Falls to the Maritime Link.

As well, in April 2023, Energy Marketing purchased 146 MW of firm Phase I/II transmission for the period of June 1, 2023 to May 31, 2024, providing access to sell more energy in the New England markets.

8. OPERATING COSTS

	Three months ended		Nine months ended	
For the period ended September 30 (thousands of Canadian dollars)	**2023**	2022	**2023**	2022
Salaries and benefits	**884**	892	**2,734**	2,795
Professional services	**146**	148	**477**	419
Other operating costs	**129**	168	**544**	515
	1,159	1,208	**3,755**	3,729

9. NET FINANCE INCOME

	Three months ended		Nine months ended	
For the period ended September 30 (thousands of Canadian dollars)	**2023**	2022	**2023**	2022
Finance income				
Bank interest	**351**	196	**950**	277
Finance expense				
Bank and interest charges	**25**	24	**86**	50
Net finance income	**(326)**	(172)	**(864)**	(227)

10. OTHER EXPENSE (INCOME)

		Three months ended		Nine months ended	
For the period ended September 30 (thousands of Canadian dollars)		**2023**	2022	**2023**	2022
Mark-to-market of open market positions		**666**	(1,745)	**2,426**	2,606
Unrealized foreign exchange (gain) loss		**(143)**	(351)	**181**	(319)
Financial transmission rights gain and amortization		**112**	(736)	**219**	(1,065)
Realized foreign exchange gain		**(331)**	(419)	**(303)**	(633)
Net PPA losses (gains)	11.2(a)	**519**	21,515	**(1,710)**	(7,457)
		823	18,264	**813**	(6,868)

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

11.1 Fair Value

The estimated fair values of financial instruments as at September 30, 2023 and December 31, 2022 are based on relevant market prices and information available at the time. Fair value estimates are based on valuation techniques which are significantly affected by the assumptions used including the amount and timing of future cash flows and discount rates reflecting various degrees of risk. As such, the fair value estimates below are not necessarily indicative of the amounts that Energy Marketing might receive or incur in actual market transactions.

As some of Energy Marketing's assets and liabilities do not meet the definition of a financial instrument, the fair value estimates below do not reflect the fair value of Energy Marketing as a whole.

Establishing Fair Value
Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the nature of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. For assets and liabilities that are recognized at fair value on a recurring basis, Energy Marketing determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers between Level 1, 2 and 3 fair value measurements during the period ended September 30, 2023 and the year ended December 31, 2022.

	Level	Carrying Value	Fair Value	Carrying Value	Fair Value
As at (thousands of Canadian dollars)		**September 30, 2023**		December 31, 2022	
Financial assets					
Derivative assets	**2,3**	**23,390**	**23,390**	88,661	88,661
Long-term derivative assets	**3**	**-**	**-**	13	13

The fair value of cash, trade and other receivables and trade and other payables approximate their carrying values due to their short-term maturity.

The fair values of Level 2 financial instruments are determined using quoted prices in active markets which, in some cases, are adjusted for factors specific to the asset or liability. Level 2 derivative instruments are valued based on observable commodity future curves, broker quotes or other publicly available data. Level 2 fair values of other risk management assets and liabilities are determined using observable inputs other than unadjusted quoted prices, such as interest rate yield curves and currency rates.

Level 3 financial instruments include the PPA derivative with Hydro and financial transmission rights.

The PPA derivative represents Energy Marketing's forecasted energy sales net of Recapture power purchases, for the 2023 calendar year. It does not include the value of transmission rights or other transportation and market related costs.

Financial transmission rights are purchased contracts used to mitigate risk associated with congestion in export markets.

The following table summarizes quantitative information about the valuation techniques and unobservable inputs used in the fair value measurement of Level 3 financial instruments as at September 30, 2023.

(thousands of Canadian dollars)	Carrying Value	Valuation Techniques	Significant Unobservable Input(s)	Range
Derivative asset (Financial transmission rights)	**31**	Modelled pricing	Price, seasonality and market factors	-4% to 252%
Derivative asset (Power purchase derivative asset)	**23,132**	Modelled pricing	Volumes (MWh)	38% to 41% of available generation

Methodologies for calculating the fair values of financial transmission rights are determined by using underlying contractual data as well as observable and unobservable inputs. Fair value methodologies are reviewed by Management on a quarterly basis to assess the reasonability of the assumptions made and models are adjusted as necessary for significant expected changes in fair value due to changes in key inputs. As at September 30, 2023, the effect of using reasonably possible alternative assumptions regarding the unobservable implied volatilities may have resulted in $nil to +$0.1 million change in the carrying value of the financial transmission rights.

The derivative asset arising under the PPA is designated as a Level 3 instrument as certain forward market prices and related volumes are not readily determinable to estimate a portion of the fair value of the derivative asset. Hence, fair value measurement of this instrument is based upon a combination of internal and external pricing and volume estimates. As at September 30, 2023, the effect of using reasonably possible alternative assumptions for volume inputs to valuation techniques may have resulted in +$0.5 million to +$1.1 million change in the carrying value of the power purchase derivative asset.

11.2 Risk Management

Energy Marketing is exposed to certain credit, liquidity and market risks through its operating, financing and investing activities. Financial risk is managed in accordance with a Board approved policy, which outlines the objectives and strategies for the management of financial risk, including the use of derivative contracts. Permitted financial risk management strategies are aimed at minimizing the volatility of Energy Marketing's expected future cash flows.

<u>Credit Risk</u>

Energy Marketing's expected future cash flows are exposed to credit risk through its operating activities, primarily due to the potential for non-performance by its customers, and through its financing and investing activities, based on the risk of non-performance by counterparties to its financial instruments. The degree of exposure to credit risk on trade receivables is minimal and the receivables are primarily due from independent system operators or approved counterparties, which are either investment-grade or have provided sufficient collateral to support their obligations. Exposure to approved counterparties is continuously monitored to ensure credit limits are adhered to, and in cases where those limits may be exceeded additional collateral is required. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the Statement of Financial Position at the reporting date. Credit risk on cash is considered to be minimal, as Energy Marketing's cash deposits are held by a Canadian Schedule 1 Chartered bank with a rating of A+ (Standard and Poor's).

<u>Liquidity Risk</u>

Energy Marketing is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. Liquidity risk management is aimed at ensuring cash is available to meet those obligations as they become due.

Short-term liquidity is provided mainly through cash on hand, funds from operations, and a $20.0 million demand operating credit facility with its bank. This credit facility, which is unconditionally and irrevocably guaranteed by Nalcor, had no amounts outstanding as of September 30, 2023 (December 31, 2022 - $nil), however $11.0 million CAD equivalent of the limit was used to issue seven irrevocable letters of credit (December 31, 2022 - $4.8 million CAD equivalent for five irrevocable letters of credit).

As at September 30, 2023, Nalcor, on behalf of Energy Marketing, has issued $6.2 million CAD equivalent (December 31, 2022 - $6.2 million CAD equivalent) in letters of credit to various independent system operators, transmission providers, and bilateral counterparties in relation to power purchase and sale contracts. These letters of credit have automatic renewal clauses, unless cancelled with appropriate notice by the issuer or beneficiary.

As at September 30, 2023, Nalcor, on behalf of Energy Marketing, has issued unconditional guarantees and sales contracts in the amount of $22.7 million CAD equivalent (December 31, 2022 - $22.7 million CAD), in order to guarantee amounts under power purchase and sale contracts with bilateral counterparties and sale of transmission rights.

Market Risk

In the course of carrying out its operating, financing and investing activities, Energy Marketing is exposed to possible market price movements that could impact expected future cash flow and the carrying value of certain financial assets and liabilities. Market price movements to which Energy Marketing has significant exposure include those relating to USD/CAD foreign exchange rates and current commodity prices, most notably the spot prices for electricity.

Energy Marketing participates in the day-ahead market of several independent system operators and enters into fixed price transactions with bilateral counterparties. Changes in fair value associated with the difference between the committed energy price and real time energy during the hour the energy physically flows are included in energy sales on the Statement of Profit and Comprehensive Income. For the period ended September 30, 2023, $2.2 million in realized gains (September 30, 2022 - $1.5 million in realized gains) related to these fair value differences were included in energy sales.

Foreign Currency and Commodity Exposure

Energy Marketing's primary exposure to both foreign exchange and commodity price risk arises from its USD denominated electricity and renewable energy credit sales. For the period ended September 30, 2023, total energy and renewable energy credit sales denominated in USD were $50.1 million USD (September 30, 2022 - $61.5 million USD).

The components of change impacting the carrying value of derivative assets and liabilities for the period ended September 30, 2023 and 2022 are as follows:

	Total	
(thousands of Canadian dollars)	**Level II**	**Level III**
Balance at January 1, 2023	**2,653**	**86,021**
Net purchases	**-**	**172**
	2,653	**86,193**
Changes to profit (loss)		
Amortization	**-**	**(405)**
Mark-to-market	**(2,426)**	**(17,211)**
Settlements (a)	**-**	**(45,414)**
Total	**(2,426)**	**(63,030)**
Balance at September 30, 2023	**227**	**23,163**
Balance at January 1, 2022	2,650	56,228
Net Purchases	-	928
	2,650	57,156
Changes to profit (loss)		
Amortization	-	(685)
Mark-to-market	(2,606)	34,273
Settlements (a)	-	(68,754)
Total	(2,606)	(35,166)
Balance at September 30, 2022	44	21,990

(a) Net changes in Energy Marketing – Hydro PPA

	Three months ended		Nine months ended	
For the period ended September 30 (thousands of Canadian dollars)	**2023**	2022	**2023**	2022
PPA gain				
Amortization of deferral	**(21,423)**	(13,914)	**(64,267)**	(41,741)
Mark-to-market of derivative	**-**	(4,312)	**-**	(34,470)
	(21,423)	(18,226)	**(64,267)**	(76,211)
PPA loss				
Mark-to-market of derivative	**1,141**	-	**17,143**	-
Settlement of realized profit	**20,801**	39,741	**45,414**	68,754
	21,942	39,741	**62,557**	68,754
Net PPA losses (gains)	**519**	21,515	**(1,710)**	(7,457)

12. RELATED PARTY TRANSACTIONS

Energy Marketing enters into various transactions with its parent and other related parties. Unless otherwise noted, these transactions occur within the normal course of operations and are measured at the exchange amount, which is the amount of consideration agreed to by the related parties. Outstanding balances due to or from related parties are non-interest bearing with settlement within 30 days, unless otherwise stated.

Related parties with which Energy Marketing transacts are as follows:

Related Party	Relationship
Nalcor	100% shareholder of Energy Marketing
Newfoundland and Labrador Hydro (Hydro)	Wholly-owned subsidiary of Nalcor
Muskrat Falls Corporation (Muskrat Falls)	Wholly-owned subsidiary of Nalcor

Significant related party transactions, which are not otherwise disclosed separately in the condensed interim financial statements, are summarized below:

As at (thousands of Canadian dollars)	**September 30 2023**	December 31 2022
Trade and other receivables:		
Other related parties	**12,317**	11,263
Prepayments:		
Other related parties	**2,204**	1,349
Trade and other payables:		
Other related parties	**4,117**	8,152
Parent	**79**	91

For the period ended September 30 (thousands of Canadian dollars)		**Three months ended**		**Nine months ended**	
		2023	2022	**2023**	2022
Other revenue:					
Other related parties		**-**	-	**-**	4,492
Transmission rental and market fees:					
Other related parties		**9,208**	5,157	**26,316**	11,448
Operating costs:					
Parent		**151**	126	**461**	538
Other related parties		**82**	68	**246**	168
Power purchased:					
Other related parties	(a,b)	**5,376**	11,977	**15,498**	18,151

(a) In April 2022, Energy Marketing and Hydro amended the Energy Marketing – Hydro PPA to allow Energy Marketing to purchase incremental Recapture energy.

(b) In July 2022, Energy Marketing and Muskrat Falls entered into a short-term Service Agreement where Muskrat Falls has agreed to sell and Energy Marketing has agreed to purchase Muskrat Falls Residual Block for export and sales to external markets.

13. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		Nine months ended	
For the period ended September 30 (thousands of Canadian dollars)	**2023**	2022	**2023**	2022
Trade and other receivables	**508**	(2,268)	**2,930**	(13,299)
Prepayments	**1,629**	155	**(407)**	11
Trade and other payables	**(490)**	1,262	**(1,517)**	2,292
Changes in non-cash working capital balances	**1,647**	(851)	**1,006**	(10,996)
Related to:				
Operating activities	**1,649**	(2,394)	**1,017**	(12,762)
Investing activities	**(2)**	1,543	**(11)**	1,766
	1,647	(851)	**1,006**	(10,996)